Message from the Acting Chief Financial Officer

Elizabeth E. Smedley

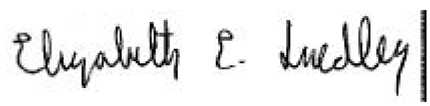
I am pleased to present the Department of Energy's first efforts to prepare consolidated financial statements and disclose our financial condition and the results of operations for Fiscal Year 1996. Previously, ten of the Department's subunits prepared audited financial statements for commercial type activities. These ten separate statements represented only about a quarter of the Department's activities and received unqualified opinions from the auditors in Fiscal Year 1995. Building on that experience, the Office of Chief Financial Officer has prepared the more comprehensive Departmental statements presented here in accordance with the requirements of the Office of Management and Budget, the Chief Financial Officers Act of 1990, and the Government Management Reform Act of 1994.

The Department of Energy has experienced extraordinary changes in the post-Cold War period, many of which significantly impact these financial statements. The downsizing of the defense complex is one example of these changes and has resulted in the write-down of asset values for many of the Department's weapons production facilities and the recognition of environmental liabilities related to legacy wastes generated from years of nuclear weapons production. These changes have challenged the Department in the field of financial management and have required the diligence, dedication, and effective use of all our resources to realize the greatest value for every taxpayer dollar spent and ensure no dollars are spent unwisely or improperly.

The Department is firmly committed to excellence in all aspects of financial management. Under the current Administration, the Department has begun the long journey to achieving total quality management in all of its administrative and scientific activities, business-type enterprises, and regulatory functions. This commitment is dramatically changing the way we do business. The Department, in embracing the total quality management concept, recognizes that our customers and employees are the most important resources and strives to actively involve those served in the planning and decision-making processes inherent to carrying out our mission.

Financial management within the Department, and the Federal government as a whole, is on the threshold of significant change. The need to significantly reduce the budget deficit severely limits the financial resources available to carry out Federal programs. Promoting efficiency and economy in the use of these resources is vital to achieving our national goals, and financial considerations have become an integral part of the decisional process in carrying out the Department's mission. The Department, like other Federal agencies, is currently faced with severe Congressionally imposed reductions in both funding and staffing. Downsizing, buyouts, and reductions in funding present extremely difficult challenges as managers and staff strive to do more with less. As a result, the Department must take advantage of all opportunities to significantly improve the efficiency of our operations and promote a forward thinking approach to meet our future challenges and commitments. Our current initiatives place the Department squarely on the path to realizing our operational and financial goals.

For example, in the area of financial management, the Department has initiated a concerted effort to consolidate nineteen field accounting offices into three financial service centers. The Department has selected the three financial service centers to be the Albuquerque Financial Service Center in New Mexico, the Oak Ridge Financial Service Center in Tennessee, and the Capital Accounting Center in the Washington, D.C. area. This consolidation of accounting activities will result in savings of $17.7 million and 61 full-time equivalents over the next five years. The projected savings resulting from the accounting consolidation will be realized from operational efficiencies, technological and process improvements, and the physical consolidation of activities that will further improve financial management throughout the Department.



Elizabeth E. Smedley
Acting Chief Financial Officer

Financial Overview

This financial overview of the consolidated financial statements contains highlights of significant balances contained in the consolidated financial statements and related financial performance measures.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS - The Consolidated Statement of Financial Position reflects total assets of **$94.0** billion and primarily consists of the following:

Fund Balances with Treasury of **$10.9** billion consist primarily of appropriated funds to pay current liabilities and finance authorized purchase commitments.

Investments of **$6.4** billion consist primarily of monies managed for the Nuclear Waste Fund and the Uranium Enrichment Decontamination and Decommissioning Fund. Fees paid by owners and generators of spent nuclear fuel and high-level radioactive waste and fees collected from domestic utilities are deposited in the respective funds to pay current program costs, with excess funds invested in Treasury securities.

Accounts Receivable of **$5.4** billion consist of intragovernmental receivables of $688 million resulting primarily from reimbursable work performed for other Federal agencies and governmental receivables due from the public of $4.7 billion primarily for Nuclear Waste Fund and Uranium Enrichment Decontamination and Decommissioning Fund fees.

Stockpile Materials of **$39.5** billion consist of crude oil at the Strategic Petroleum Reserve and special nuclear materials. The Strategic Petroleum Reserve component of $15.2 billion represents the cost of 574 million barrels of crude oil stored in salt domes, terminals, and pipelines. The reserve provides a deterrent to the use of oil as a political instrument and provides an effective response mechanism should a disruption occur. The nuclear materials of $24.3 billion consist primarily of weapons and related components, including those in the custody of the Department of the Defense under Presidential Directive, and materials used for research and development purposes.

Property, Plant, and Equipment of **$22.0** billion includes over 120 million square feet of buildings located on over 2.3 million acres of land. The Department's property and equipment values have been adjusted to reflect the Department's changing mission (e.g. downsizing of the defense complex) and to be in compliance with applicable accounting standards and guidance. Of particular significance was the implementation of the Financial Accounting Standard Board (FASB) Emerging Issues Task Force Issue 90-8, *Capitalization of Costs to Treat Environmental Contamination*. This guidance requires the expensing of facilities and equipment that treat, store, or dispose of existing environmental wastes generated by past operations. This has resulted in a $4.6 billion write-down of facilities and equipment, of which $1.6 billion occurred during Fiscal Year (FY) 1996.

Regulatory Assets of **$7.2** billion are associated with the Department's power generation and management responsibilities. These regulatory assets represent the Bonneville Power Administration's (BPA) right to future revenues generated from non-Federal power generating projects in return for BPA's payment of debt issued to complete these projects.

LIABILITIES - The Consolidated Statement of Financial Position reflects Departmental liabilities totaling **$264.6** billion. The following significant liabilities represent funds or other resources that will be paid by the Department as a result of transactions or events that have occurred.

Deferred Revenues and Other Credits of **$8.4** billion primarily represent the amount of Nuclear Waste Fund revenues that exceed the Nuclear Waste Fund expenses. Nuclear Waste Fund revenues are accrued based on fees assessed against owners and generators of high-level radioactive waste and spent nuclear fuel and are recognized as costs are incurred for Nuclear Waste Fund activities.

Environmental Liabilities of **$228.9** billion represent the Department's obligation to correct the environmental damage done while researching, producing, and testing nuclear weapons. Facilities requiring cleanup include nuclear reactors, chemical processing buildings, metal machining plants, laboratories, and maintenance facilities where environmental contamination occurred as a result of their operation. The environmental legacy derived from the process of producing nuclear weapons includes thousands of contaminated areas and buildings and large volumes of waste and special nuclear materials requiring treatment, stabilization, and disposal. The Department's environmental liability also includes the cost of addressing existing wastes and those facilities that have been declared surplus, as well as the cost to decontaminate and decommission facilities still operating. This liability is also significant from a Government-wide perspective, in that it is one of the largest in the Federal government and is the primary reason for the deficit Net Position of **($170.5)** billion reflected on the Consolidated Statement of Operations and Changes in Net Position. Additionally, since this liability is substantially unfunded, it represents significant future funding requirements for the Department.

Pensions and Other Actuarial Liabilities of **$6.1** billion represent amounts which the Department promises to pay for specified benefits to contractor employees having approved defined benefit pension plans and postretirement benefits other than pensions. The Department has a unique contractual relationship with these contractor employees that makes the Department ultimately responsible for funding the defined benefit pension and postretirement benefit plans and any related liabilities. Defined benefit pension plans provide benefits, such as a percentage of the final average pay for each year of service, and postretirement benefits other than pensions which include predominantly postretirement health care benefits.

CONSOLIDATED STATEMENT OF OPERATIONS AND CHANGES IN NET POSITION

REVENUES AND FINANCING SOURCES - Total revenues and financing sources consist primarily of the following:

Appropriated Capital Used of **$19.9** billion represents the funds made available to the Department to perform its mission through congressional appropriations. These appropriations are recognized as financing sources at the time the related expenses are incurred and the assets are consumed in operations.

Revenues From Goods and Services Provided of **$6.3** billion consist of public revenues of $4.3 billion predominantly from the sale and transmission of electric power and the sale of oil from the Department's reserves and intragovernmental revenues of $2.0 billion from work done for others.

Other Revenues and Financing Sources of **$1.0** billion consist primarily of Nuclear Waste Fund fees assessed, revenues collected for the Federal Energy Regulatory Commission, and revenues recognized for the Petroleum Pricing Violation Escrow Fund.

EXPENSES - The revenues contained on the Consolidated Statement of Operations and Changes in Net Position are offset by expenses totaling **$33.9** billion, which primarily consist of the following:

Program Expenses of **$16.1** billion make up the majority of the Department's expenses and are categorized by business lines and explained in detail in the supplementary information provided after the Notes to the Financial Statements. The fifth business line, Economic Productivity, cuts across multiple organizational missions, funding levels, and activities and is therefore included within the other four business lines.

Program Expenses:	(in billions)
Energy Resources	$2.5
Science and Technology	$2.4
National Security	$4.4
Environmental Quality	$6.2
Business Line Total	**$15.5**
Management and Other	$0.6
Total	***$16.1***

Cost of Goods & Services Provided of **$5.2** billion represents costs incurred in generating the $6.3 billion of public and intragovernmental revenues from goods and services provided.

Unfunded Liability Adjustment of **$9.1** billion primarily consists of the net increase in unfunded environmental baseline estimates and liabilities for the disposition of excess nuclear materials.

More detailed explanations of these and other balances on the consolidated financial statements are included in the Notes to the Financial Statements.

Financial Performance Measures

Receivables Management

The Department fully supports the laws, regulations, and central agency initiatives for improving Federal credit management and debt collection. The Department's receivables fall into five major categories: petroleum pricing violations, power marketing sales, decontamination and decommissioning fund fees, nuclear waste disposal fees, and all other receivables as shown in **Chart 1**. As of September 30, 1996, the Department had $7.2 billion in outstanding debt due from the public and a related $2.5 billion allowance for uncollectible accounts. This debt due from the public consists of $4.7 billion in governmental receivables and $2.5 billion in custodial receivables, with related allowances for uncollectible accounts of $.2 billion and $2.3 billion, respectively. Of this $7.2 billion amount, approximately $3.2 billion (44 percent) was current (due within 12 months of the end of the reporting period), and $4.0 billion (56 percent) was noncurrent (not due within 12 months of the end of the reporting period). The Department's delinquent accounts receivable totaled $2.4 billion. Of these delinquent receivables, approximately $2.3 billion are from petroleum pricing violations. These petroleum pricing violations receivables are the result of consent agreements reached with individuals or firms that violated petroleum pricing regulations under the Emergency Petroleum Allocations Act of 1973. The majority of these receivables are in bankruptcy, or collection action is being taken by the Department of Justice. The Uranium Enrichment Decontamination and Decommissioning Fund and Nuclear Waste Fund receivables are supported by contracts and agreements with public utilities that have been authorized by legislation. For example, the Nuclear Waste Policy Act of 1982 requires the Department to assess fees against owners and generators of high-level radioactive waste and spent nuclear fuel to fund permanent disposal.

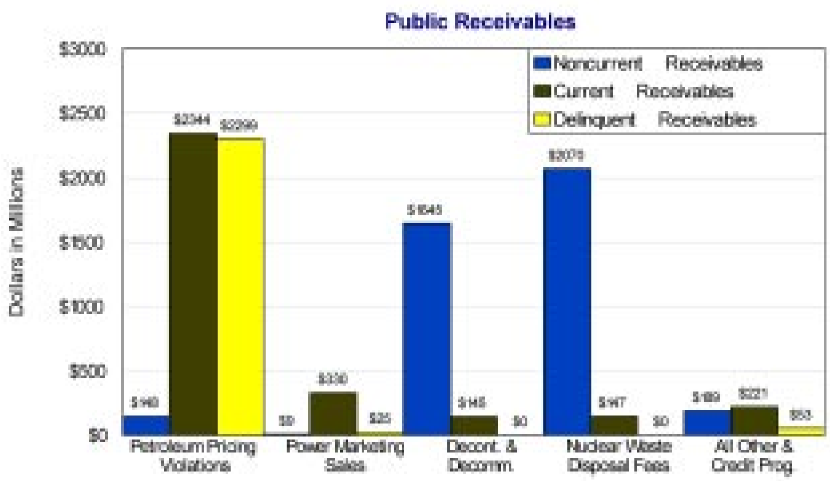


Chart 1

Prompt Payment

The Department's FY 1996 on-time payment performance percentage rate was 95 percent. This performance meets the Federal government goal set by the Office of Management and Budget (OMB). The Department has implemented its Quality Control Program at each payment center. During the past year, the Department served on a working group tasked to rewrite OMB Circular A-125, to streamline the Prompt Payment Standards, and to eliminate superfluous reporting requirements. **Chart 2** displays the Federal government's prompt payment goal and the Department's accomplishments for FY 1994, 1995, and 1996.

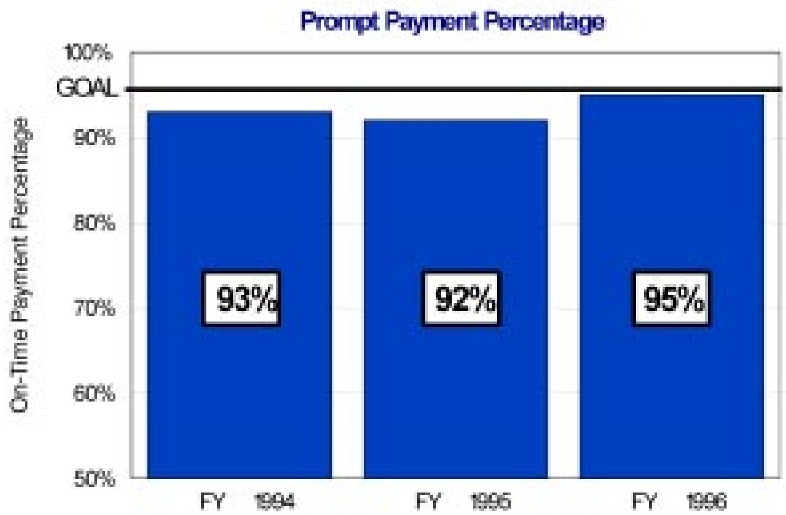


Chart 2

Chart excludes the Bonneville Power Administration.

Balances of Uncosted Obligations

Significant balances of uncosted obligations occur when a Federal agency contracts out much of its appropriated funds, as does the Department. These uncosted balances represent the portion of contract obligations related to goods and services which have not yet been delivered. While balances of uncosted obligations are natural and acceptable, concern is directed at agencies when excess uncosted balances are maintained. The Department's uncosted obligations are evaluated and considered in the budget formulation process. The General Accounting Office (GAO) recommended that controls be developed to ensure that the analysis of uncosted obligations be performed as part of the Department's financial management process. As reflected in **Chart 3**, the Department has taken aggressive actions to understand what drives uncosted obligation balances, control and reduce these balances, and more actively consider these resources when determining budget estimates. As a result of the GAO recommendations, a process improvement group developed new policy to improve the evaluation of the year-end carryover of uncosted obligated balances for FY 1996.

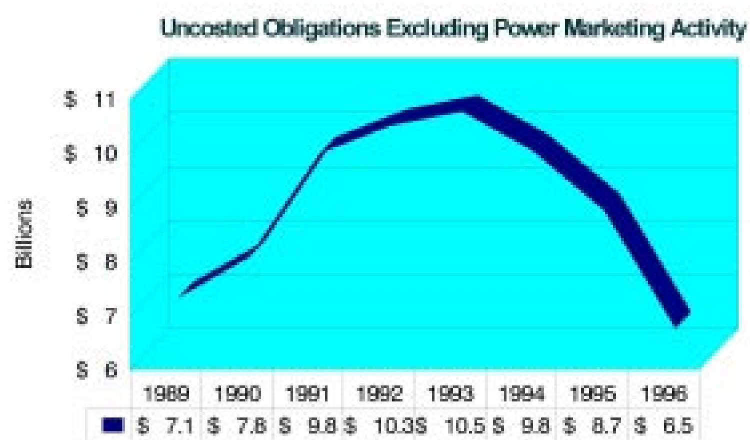


Chart 3

Electronic Funds Transfer

The Debt Collection Improvement Act of 1996 requires the use of Electronic Funds Transfer for all Federal payments made after January 1, 1999, with limited exceptions. The FY 1996 results portrayed in **Chart 4** demonstrate the Department's commitment to implementing the Governmentwide mandate to fully utilize Electronic Funds Transfer for salary payments.

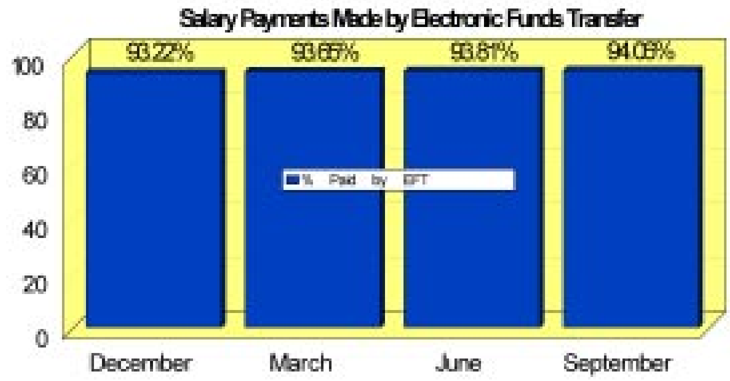


Chart 4
Chart excludes the Bonneville Power Administration.

Timeliness of Travel

The goal for average processing time from the receipt of a travel voucher to final payment of the travel voucher is 10 days or less, as established by OMB. As **Chart 5** shows, the Department has exceeded that goal and is currently working to improve the processing time for travel vouchers from the receipt to final payment to 3 days. The measure was included in the Chief Financial Officer Strategic Plan and demonstrates our commitment to improve customer service.

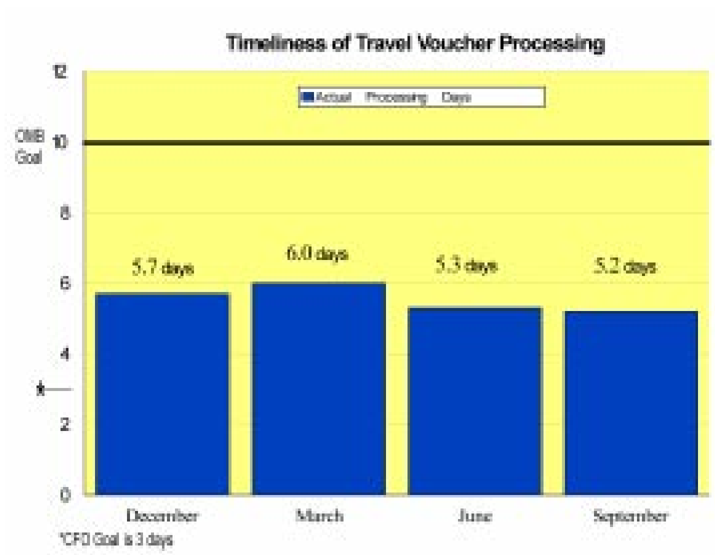


Chart 5
Chart excludes the Bonneville Power Administration.

Limitations to the Financial Statements

The financial statements beginning on page 40 have been prepared to report the financial position and results of operations of the Department of Energy, pursuant to the requirements of the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994.

While the statements have been prepared from the books and records of DOE in accordance with the formats prescribed by the Office of Management and Budget, the statements are different from the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

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